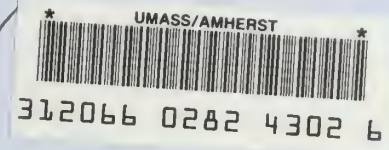


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**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE INSPECTOR GENERAL**

**A Review of the Commonwealth's
Higher Education Building Authorities**

**GOVERNMENT DOCUMENTS
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MAY 11 1995

**University of Massachusetts
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**Robert A. Cerasoli
Inspector General
February 1995**





The Commonwealth of Massachusetts

Office of the Inspector General

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February 1995

His Excellency the Governor

The Honorable President of the Senate

The Honorable Speaker of the House

The Honorable Chairman of the Senate Ways and Means Committee

The Honorable Chairman of the House Ways and Means Committee

The Executive Directors of the Legislative Post Audit Committees

The Secretary for Administration and Finance

Members of the General Court

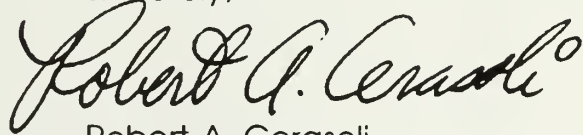
Omnibus ad quos praesentes literae pervenerint, salutem.

I am today releasing a report on the Commonwealth's higher education building authorities: the University of Massachusetts Building Authority, the University of Lowell Building Authority, the Southeastern Massachusetts University Building Authority, and the Massachusetts State College Building Authority. Three years have elapsed since the state's three universities were consolidated into a single University of Massachusetts system. During this period, the four building authorities have continued to operate independently – although two of the four were affiliated with universities that no longer exist independently. Based on my Office's review, I have concluded that options to consolidate the higher education building authorities merit serious consideration.



I appreciate the cooperation my Office received from the four higher education building authorities, the University of Massachusetts, and the Higher Education Coordinating Council. These six entities were provided with a preliminary review draft of this report for comment, and their written responses are included in the report appendix.

Sincerely,

A handwritten signature in black ink, reading "Robert A. Cerasoli". The signature is written in a cursive style with a large, stylized "R" and a small "o" at the end.

Robert A. Cerasoli
Inspector General



CONTENTS

Executive Summary	i
Introduction	1
Background	5
Findings	9
Finding 1: The higher education building authorities have not financed significant new construction of campus buildings in recent years	9
Finding 2: Three of the four higher education building authorities do not perform significant operational functions	10
Finding 3: The memberships of the three university building authorities do not conform to legal requirements	11
Finding 4: Indecision regarding the future of the higher education building authorities prevented the Southeastern Massachusetts University Building Authority and the University of Lowell Building Authority from refinancing their debt at historically low interest rates	12
Conclusions and Recommendations	17
Appendix A: Responses to Draft Report	19
Figure 1: Tuition and Fees	2
Figure 2: Tuition and Fee Increases	4
Table 1: University of Massachusetts Building Authority Membership as of 12/12/94	13
Table 2: Southeastern Massachusetts University Building Authority Membership as of 12/12/94	13
Table 3: University of Lowell Building Authority Membership as of 12/12/94	13
Table 4: Massachusetts State College Building Authority Membership as of 12/12/94	13

EXECUTIVE SUMMARY

The Commonwealth's higher education building authorities were created to aid public education by providing dormitories, dining commons, and other buildings and structures for the use of the Commonwealth's public colleges and universities. There are four independent building authorities: the University of Massachusetts Building Authority, the University of Lowell Building Authority, the Southeastern Massachusetts University Building Authority, and the Massachusetts State College Building Authority. The higher education building authorities have a broad range of corporate powers, the most important of which is the power to issue debt financed by student fees. The room and board fees imposed and collected by the higher education building authorities represent a substantial share of the total fees paid by many students in the Commonwealth's public education system.

In late 1993, two years after the University of Massachusetts consolidation, the Office of the Inspector General initiated a limited review of the higher education building authorities, two of which were affiliated with universities that no longer existed. The purpose of this Office's review was to identify the current functions performed by the building authorities and to assess the current organizational arrangements.

This Office's review yielded the following findings:

1. **The higher education building authorities have not financed significant new construction in recent years.**
2. **Three of the four higher education building authorities do not perform significant operational functions.**
3. **The memberships of the three university building authorities do not conform to legal requirements.**

4. **Indecision regarding the future of the higher education building authorities prevented the Southeastern Massachusetts University Building Authority and the University of Lowell Building Authority from refinancing their debt at historically low interest rates.**

The current organization of the Commonwealth's higher education building authorities may impede sound planning and priority setting on a system-wide basis. To promote cost-effective resource allocation decisions in the higher education system, the Administration and the Legislature should consolidate or eliminate the higher education building authorities. Options to consider include the following:

1. **Consolidate the three university building authorities to reflect the reorganized university system, leaving the Massachusetts State College Building Authority separate.**
2. **Replace all four higher education building authorities -- i.e., the three university building authorities and the Massachusetts State College Building Authority -- with a single building authority.**

INTRODUCTION

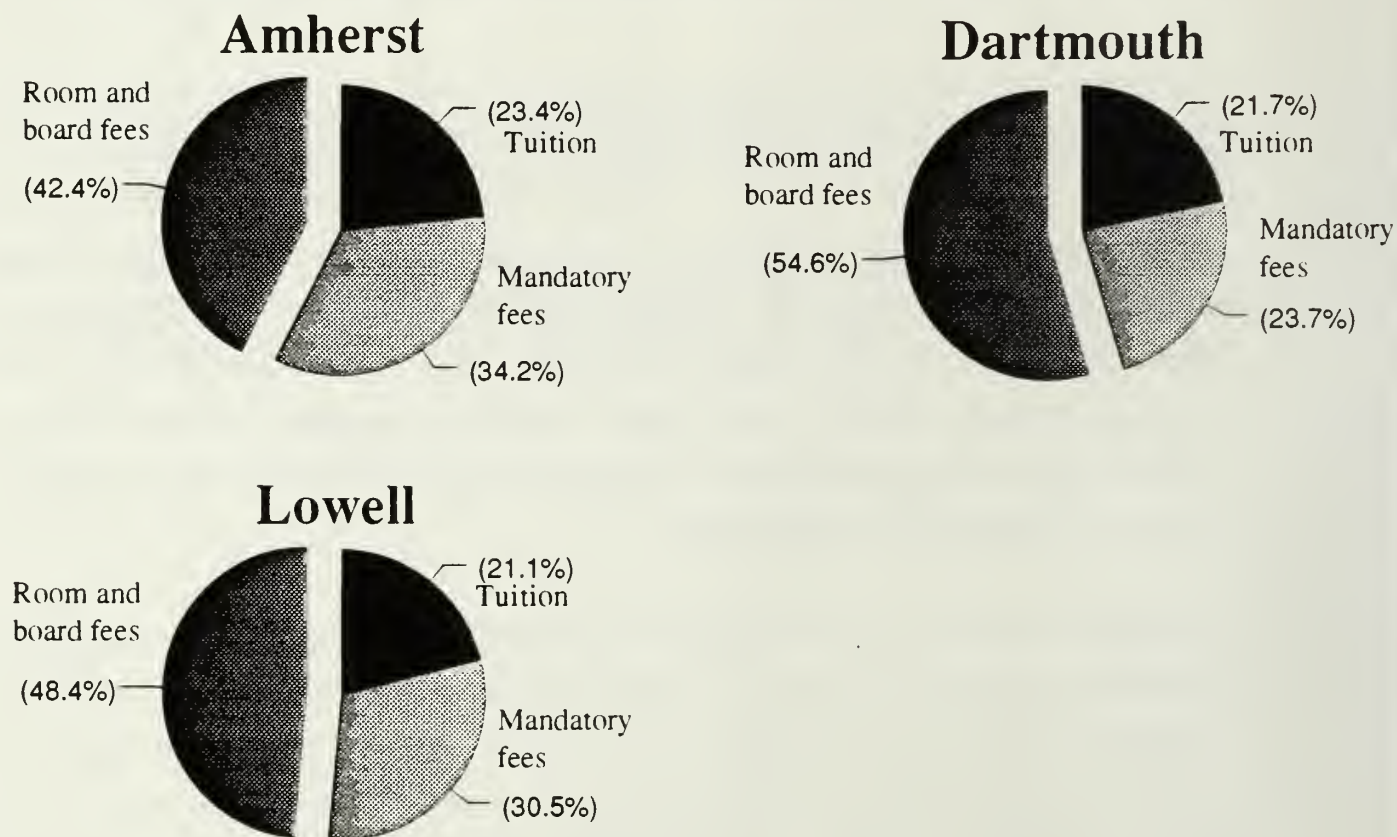
In 1991, the Legislature enacted the Higher Education Reform Act of 1991 (Chapter 142 of the Acts of 1991). This legislation consolidated the state's universities by incorporating the University of Lowell and Southern Massachusetts University into a consolidated University of Massachusetts; it also replaced the Board of Regents with a Higher Education Coordinating Council. The education reform legislation specifically exempted the three university-affiliated higher education building authorities from any effects of the university consolidation.

The higher education building authorities were created to aid public education by providing dormitories, dining commons, and other buildings and structures for the use of the state's public colleges and universities. There are four independent building authorities: the University of Massachusetts Building Authority, the University of Lowell Building Authority, the Southeastern Massachusetts University Building Authority, and the Massachusetts State College Building Authority. The higher education building authorities have a broad range of corporate powers, the most important of which is the power to issue debt financed by student fees.

The room and board fees imposed and collected by the higher education building authorities represent a substantial share of the total fees paid by many students in the state's public education system. Figure 1 shows that room and board fees for the 1994-1995 academic year accounted for 42 percent of total costs for in-state students at the Amherst campus, 48 percent at the Lowell campus, and 55 percent at the Dartmouth campus. In fact, room and board fees were more than twice as high as tuition for the Dartmouth and Lowell campuses and nearly twice as high as tuition for the Amherst campus.

Figure 1. Tuition and Fees

University of MA Campuses, 1994-95



Note: Figures are for in-state undergraduates; room and board figures are average rates.

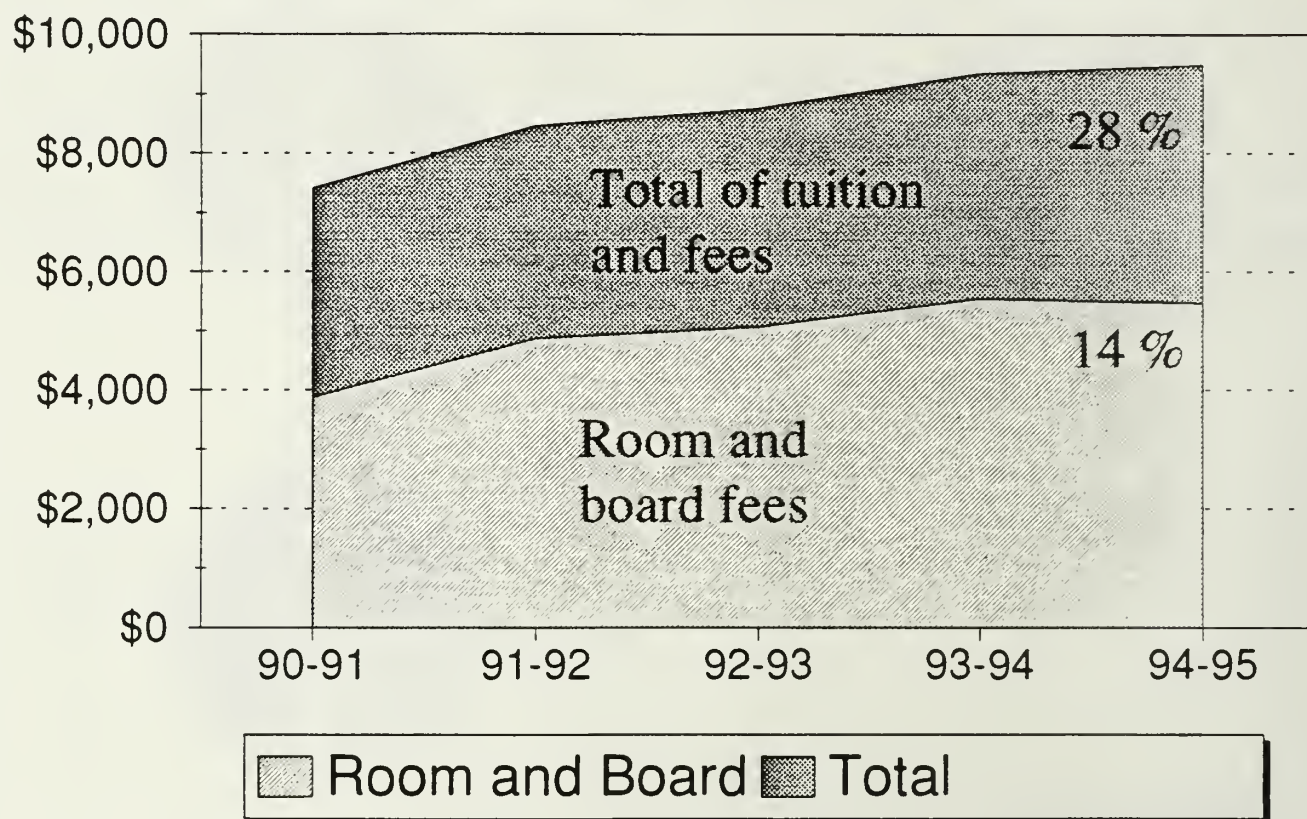
Source: The University of Massachusetts President's Office
December 16, 1994

Moreover, the cost to students for room and board -- like all other student costs for public higher education -- has increased substantially in recent years. Figure 2 shows that the cost to in-state students for room and board at the Amherst campus, the largest campus in the University system, increased by 14 percent over the last five academic years, while total student costs increased by 28 percent. During the same period room and board fees at the Dartmouth and Lowell campuses increased by 12 percent and 8 percent, respectively; total student costs increased by 23 percent and 28 percent.

In late 1993, two years after the University of Massachusetts consolidation, the Office of the Inspector General initiated a limited review of the Commonwealth's higher education building authorities, two of which were affiliated with universities that no longer existed. The purpose of this Office's review was to identify the current functions performed by the building authorities and to assess the current organizational arrangements. This Office's findings and recommendations are detailed in these pages.

Figure 2. Tuition and Fee Increases

University of MA, Amherst 1991-1994



Note: Figures are for in-state undergraduates; room and board figures are average rates.

Source: The University of Massachusetts President's Office
December 16, 1994

BACKGROUND

The consolidation of the University of Massachusetts system achieved by the Higher Education Reform Act of 1991 closely tracked the recommendations of a special commission appointed by the Governor in 1988. The 18-member Commission on the Future of the University was chaired by Dr. David Saxon, President Emeritus of the University of California, and included state legislators, college and university professors and administrators, business executives, and other public officials. The Commission was charged with the task of examining and making recommendations on "the future role of the University of Massachusetts in the Commonwealth, its governance and financing."¹

After studying the structure of public university education in Massachusetts, the Commission concluded that the structure was seriously flawed. The Commission presented its findings and recommendations in a 1989 report entitled *Learning to Lead: Building a World-Class Public University in Massachusetts*. With respect to the existing organizational arrangements, the report noted:

The University trustees and president operate in a bureaucratic twilight, viewed by many as an unnecessary layer in the system. The Regents tend to deal directly with the University's campuses, rather than with the system office, preventing the trustees from exercising effective leadership. Further, the existence of two other university campuses outside the University of Massachusetts prevents the formation of a true university sector. . . .

(W)e are convinced that the system of public higher education will work better if it includes a unified university sector. Certain economies of scale -- coordinating library acquisitions, for example,

¹ *Learning to Lead: Building a World-Class Public University in Massachusetts*, The Report of the Commission on the Future of the University, University of Massachusetts, March 1989, p. 1.

or pooling supercomputer needs -- are more likely when the structure encourages campuses to work together.²

The Commission's report recommended that the state's five public university campuses -- the university campuses at Amherst, Boston, and Worcester; the University of Lowell; and Southeastern Massachusetts University -- be organized together as a single university system under a reconfigured and strengthened Board of Trustees for the University of Massachusetts. The proposed restructuring was designed to enable state policy-makers to plan and coordinate the entire statewide system, while delegating appropriate authority and responsibility to each university campus.

The Higher Education Reform Act, Chapter 142 of the Acts of 1991, created the restructured university system recommended by the Commission but left the higher education building authorities intact. Section 39 of the Act contained the following provision:

This act shall not be construed to affect the building authorities of Southeastern Massachusetts University, the University of Massachusetts, and the University of Lowell or the obligations, contracts and agreements thereof with their respective institutions in effect on August thirty-first, nineteen hundred and ninety-one, which shall be assumed by the board of trustees of the University.

In an interview with this Office, the General Counsel for the University of Massachusetts stated that the intent of the drafters of the reform legislation was to defer the decision on how best to consolidate the university building authorities. Although legislative proposals to consolidate the university building authorities were drafted by the University of Massachusetts Building Authority and by the General Counsel's Office for the University of Massachusetts in recent years, neither proposal was filed in the Legislature.

² *Ibid.*, pp. 6-8.

In October 1994, the Weld Administration filed House No. 5414, an emergency appropriations bill. Its provisions included language requiring all employees, property, and bond obligations of the University of Lowell Building Authority and Southeastern Massachusetts Building Authority to be transferred to the University of Massachusetts Building Authority, effective on January 1, 1995. Under the Administration's proposal the membership of the University of Massachusetts Building Authority would have increased from nine to 13 members; the authority's bonding capacity would have increased from \$100 million to \$182 million. House No. 5414 was not enacted in the 1994 legislative session. The Administration refiled the legislation, House No. 1641, in January 1995.

FINDINGS

Finding 1.

The higher education building authorities have not financed significant new construction in recent years.

When the University of Massachusetts Building Authority was created in 1960, its authorization to issue revenue bonds was capped at \$10 million. The \$10 million bond cap has since been increased to \$100 million. Projects financed by the University of Massachusetts Building Authority include a campus center and student union, a football stadium, and family housing. Most recently, the authority issued bonds in 1988 to finance a portion of the cost of the \$50 million William D. Mullins Memorial Center on the Amherst campus. The University of Massachusetts Building Authority issued refunding revenue bonds in 1991.

The University of Lowell Building Authority was created in 1961. Its original bond cap of \$20 million has since been increased to \$42 million. It has financed four major projects since its creation, including dormitories, a student union building, and married student apartment buildings. The University of Lowell Building Authority last issued bonds to obtain approximately \$1.3 million for dormitories in September 1989.

The Southeastern Massachusetts University Building Authority was created in 1964 with a bond cap of \$30 million, which has since been increased to \$40 million. The Southeastern Massachusetts University Building Authority has built

five dormitories, a dining hall, and 136 two-story townhouses for student housing, among other projects. The most recent bond issue was in 1986.

The Massachusetts State College Building Authority was created in 1963 with a bond cap of \$30 million. This figure is now \$105 million. Over the past decade, the Massachusetts State College Building Authority has issued bonds three times: in 1986 to refinance previously issued debt, finance dormitories at six state colleges, and fund improvements to existing facilities; in 1988 to obtain additional financing for the dormitories and fund additional improvements; and in 1994 to refinance all of its bonds and obtain \$5 million for the acquisition and renovation of a residence facility for use by the Massachusetts College of Art.

Finding 2.

Three of the four higher education building authorities do not perform significant operational functions.

The University of Massachusetts Building Authority employs no staff. It contracts with the University of Massachusetts for building-related services such as maintenance, custodial services, and collection of fees. The remaining business of the authority is conducted by consultants, including its General Counsel and Assistant Secretary-Treasurer.

The Southeastern Massachusetts University also employs no staff. The authority contracts with the University's Auxiliary Services Department for its operational functions such as building maintenance and repairs, cleaning, procurement of food and related items, operation of the dining and kitchen facilities, and billing

and collection of fees. The remaining business of the authority is conducted by its Assistant Secretary-Treasurer.

The Massachusetts State College Building Authority, which oversees the campuses of nine state colleges, has four employees: an Executive Director, a secretary, a part-time facilities engineer, and a part-time bookkeeper/comptroller. The authority contracts with the Higher Education Coordinating Council (which replaced the Board of Regents in 1991) for building maintenance, custodial services, and collection of fees.

The University of Lowell Building Authority has 13 full-time employees and several part-time employees. Of the four higher education building authorities, the University of Lowell Building Authority is the only authority that uses in-house staff to perform building-related operational functions.

Finding 3.

The memberships of the three university building authorities do not conform to legal requirements.

The enabling act of each higher education building authority prescribes the number of members to comprise the authority. According to M.G.L. c.75B, the Southeastern Massachusetts University Building Authority is to consist of 13 members: nine gubernatorial appointees and four members elected by students of Southeastern Massachusetts University. As of December 1994, the Southeastern Massachusetts Building Authority had only eight members, four of whose terms had expired.

Moreover, under the enabling act of each of the three university building authorities, the authority's members must include at least three persons who are also members of the Board of Trustees of the affiliated university.³ The legislation creating the three university building authorities was not amended when the University of Massachusetts, the University of Lowell and Southeastern Massachusetts University were integrated into a consolidated University of Massachusetts in 1991. The Education Reform Act of 1991 eliminated the Boards of Trustees of the University of Lowell and Southeastern Massachusetts University; it also reconstituted the University of Massachusetts Board of Trustees to accommodate the expanded university system. Tables 1, 2, and 3 show that as of December 1994 -- three years after the consolidation of the university system -- none of the three university building authorities had the required three Trustees among their members.

Finding 4.

Indecision regarding the future of the higher education building authorities prevented the Southeastern Massachusetts University Building Authority and the University of Lowell Building Authority from refinancing their debt at historically low interest rates.

In late 1992 and early 1993, the Southeastern Massachusetts University Building Authority made plans to refinance a portion of its outstanding debt. In October, 1992, according to authority meeting minutes, investment bankers from two firms advised Southeastern Massachusetts Building Authority members

³ The membership of the State College Building Authority must include three members of the Higher Education Coordinating Council (HECC). (See Table 4.)

TABLE 1.

UNIVERSITY OF MASSACHUSETTS BUILDING AUTHORITY
Membership as of 12/12/94

<u>Member Name</u>	<u>Term Expiration</u>	<u>University Trustee</u>
Cohen, Joseph	June 30, 1988	no
Di Cara, Lawrence	March 1, 1993	no
Knowles, Andrew C.	March 1, 1991	no
McCormack, Margaret E.	June 30, 1990	no
Morris, James T.	June 30, 1987	no
Mortsey, Gerald	June 30, 1987	no
Oakes, Gordon N.	March 1, 1990	no
Solomon, Bernard	June 30, 1994	no
Stoddard, Harold W.	March 1, 1990	no

TABLE 3.

UNIVERSITY OF LOWELL BUILDING AUTHORITY
Membership as of 12/12/94

<u>Member Name</u>	<u>Term Expiration</u>	<u>University Trustee</u>
Blair, William	June 30, 1992	no
Cunningham, David J.	June 30, 1993	no
Donahue, Joseph P.	March 1, 1996	no
Fitzpatrick, Mary Ellen	March 1, 1995	no
Jurgen, Margaret	June 3, 1995	no
Paley, Bertram R.	June 30, 1992	no
Phelps, Michael	June 30, 1993	no
Powell, Mary Jane	March 1, 1991	no
Sullivan, Sean T.	June 30, 1991	no

TABLE 2.

**SOUTHEASTERN MASSACHUSETTS UNIVERSITY
BUILDING AUTHORITY**
Membership as of 12/12/94

<u>Member Name</u>	<u>Term Expiration</u>	<u>University Trustee</u>
Barnett, Paul A.	May 1995	no
Desrosiers-Sylvia, Lorraine	June 30, 1987	no
Egan, Heather H.	May 1995	no
Federici, Angela I.	May 1995	no
Finnerty, Joseph S.	June 30, 1986	no
Fonseca, Rogerio P.	May 1995	no
Kivowitz, Jay	June 30, 1990	no
Roche, Leonard J.	June 30, 1991	no

TABLE 4.

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY
Membership as of 12/12/94

<u>Member Name</u>	<u>Term Expiration</u>	<u>HECC Representative</u>
Aerlsen, Guiliaem	June 30, 1998	no
Blout, Lisa	June 30, 1999	no
Davis, Tamara P.	August 1, 1999	yes
Fox, J. John	June 30, 1999	no
Kelly, Kelly C.	June 30, 1991	no
Lablne, Catherine Wilder	August 1, 1994	yes
Marks, Paul	June 30, 1994	no
Nessen, Peter	August 1, 1988	yes
Zolno, John E.	June 30, 1990	no

that the authority could save money if it refinanced its debt by the end of 1992.⁴ One banker estimated that the authority could save up to \$2.4 million; the other banker did not provide an estimate of potential savings. The authority voted unanimously to refinance approximately \$35 million in bonded indebtedness.⁵

The University of Massachusetts Board of Trustees then suggested to members of the Southeastern Massachusetts University Building Authority that the authority's bond issue be combined with a \$200 million capital outlay bond issue planned for the University. Minutes from the authority's May 1993 meeting indicate that authority members were concerned that the University's proposal was tied to a plan to consolidate the higher education building authorities:

(O)ne of the results of the proposed refunding will be, in effect, to cause the dissolution of the (Southeastern Massachusetts University Building) Authority. (The authority's attorney) . . . said he had not thought of refinancing in those terms. He checked with . . . (the) University Chief Counsel, who agreed that with turning the financing over to the University, the existence of building authorities goes out the window but noted that this situation could be talked about. . . .

(An authority member) was especially concerned about the Building Authority being eliminated through such a roundabout method. He said that the Authority was formed through an act of the Legislature and that only the Legislature should have the power to dissolve it.

⁴ According to the minutes from the Southeastern Massachusetts Building Authority's meeting on April 2, 1993, the savings to students from the proposed refinancing was estimated at between \$82 and \$96 per year for 24 years.

⁵ Under its enabling legislation, the Southeastern Massachusetts University Building Authority must obtain approval for any bond issue from the State Treasurer and the Secretary for Administration and Finance.

Although the Southeastern Massachusetts University Building Authority eventually agreed to join the University refinancing, the latter never took place.

The University of Lowell Building Authority also considered refinancing some of its debt in late 1992 at an estimated savings of \$500,000 per year.⁶ According to authority meeting minutes from October 1992:

(The Subcommittee on Finances) discussed the advisability of refinancing its existing debt. (The Subcommittee's Chairman) . . . stated that it would be prudent of the Authority to take advantage of the opportunity of refinancing its outstanding debt of at least \$21 million because of current interest rates. The Authority could refinance its debt at a substantial savings and by deferring the maturity date by five years. The Authority also could effectively save \$500,000 a year. That saving should provide adequate resources to bridge the gap that the University sees as a potential problem until the turnaround in enrollment in 1996. . . .

(The Chairman) was of the opinion, despite pending consolidation legislation, that the Authority should continue to pursue refinancing its current debt.

However, University of Lowell Building Authority meeting minutes from February 1993 referred to the Administration's indecision regarding the building authorities' refinancing activities:

(The Chairman) reported on the activities of the Subcommittee on Finances. He stated that at the current time all action to refinance outstanding bonds has been deferred by the State Office of Administration and Finance. The University Treasurer's office is reviewing all components of such refinancing which would also include all of the building authorities.

⁶ Under its enabling legislation, the University of Lowell Building Authority must obtain approval for any bond issue from the State Treasurer and the Secretary for Administration and Finance.

In April 1993, according to University of Lowell Building Authority meeting minutes, the Vice President and Treasurer of the University of Massachusetts advised the authority that

the University Trustees have established an infrastructure committee which includes the Chairman and Trustees of all five University campuses. . . . The State will not approve any borrowing activity to take place in higher education until there is a comprehensive master plan conducted for all public higher education.

In October 1993, the University of Lowell Building Authority voted to authorize the refinancing of outstanding bonds, provided that the bonds were issued by the Massachusetts Health and Educational Facilities Authority on terms and conditions approved by the University. However, the refinancing never took place.

Had the Southeastern Massachusetts University Building Authority and the University of Lowell Building Authority refinanced their debt when interest rates were at historically low levels, University of Massachusetts students at the Dartmouth and Lowell campuses could be paying lower room and board fees than they currently pay. Continued indecision regarding the future of the higher education building authorities may result in other lost opportunities to lower student fees or minimize fee increases.

CONCLUSION AND RECOMMENDATIONS

Three years have elapsed since the state's three universities were consolidated into a single University of Massachusetts system. The higher education building authorities have not financed significant new construction of buildings on the campuses of the state's public university and colleges in recent years. Three of the four building authorities contract with other public entities to clean, maintain, and collect fees for the buildings under their jurisdiction. The memberships of the three university building authorities do not conform to legal requirements. Although the four higher education building authorities have continued to operate independently, two of the four were affiliated with universities that no longer exist independently.

In a letter responding to a review draft of this report, representatives of the Southeastern Massachusetts Building Authority argued against consolidating the higher education building authorities. The letter, included in Appendix A to this report, stated:

(L)ong-term planning and implementation is best provided by a decentralized locally-focused building authority. The members on the building authority have the interest of the Dartmouth campus and its students in mind at all times, rather than having the responsibilities and interests of a multitude of campuses.

This position is understandable and appropriate for a single campus authority. However, it does highlight the disadvantages of preserving an organizational structure that encourages each building authority to advocate for additional resources on behalf of the individual campus or campuses it represents. In an era of burgeoning educational needs and restrictive budgets, the Commonwealth has an obligation to weigh the needs and priorities of "a multitude of campuses" when allocating scarce public resources within the public higher education system. From this perspective, the current organization

of the Commonwealth's higher education building authorities may impede sound planning and priority setting on a system-wide basis.

To promote cost-effective resource allocation decisions within the higher education system, the Administration and the Legislature should consolidate or eliminate the higher education building authorities. Options to consider include the following:

1. **Consolidate the three university building authorities to reflect the reorganized university system, leaving the Massachusetts State College Building Authority separate.**
2. **Replace all four higher education building authorities -- i.e., the three university building authorities and the Massachusetts State College Building Authority -- with a single building authority.**

APPENDIX A: RESPONSES TO DRAFT REPORT

The Inspector General provided a preliminary review draft of this report in January 1995 to the University of Massachusetts Building Authority, the University of Lowell Building Authority, the Southeastern Massachusetts Building Authority, the Massachusetts State College Building Authority, the University of Massachusetts, and the Higher Education Coordinating Council. All submitted letters in response to the draft report. Factual corrections and clarifications to the draft report have been incorporated, where appropriate, into the final version of this report. Information that did not relate to or contradict the Inspector General's findings has not been incorporated into the final report, nor is it addressed in the discussion that follows.

In their responses to the draft report, the University of Lowell Building Authority, the Southeastern Massachusetts Building Authority, and the State College Building Authority took issue with the Inspector General's recommendation that the higher education building authorities be consolidated or eliminated. The University of Lowell Building Authority and the Southeastern Massachusetts Building Authority cited a 1993 report finding by the State Auditor. Based on an analysis of the higher education building authorities' costs for insurance, administration, and funded debt, the State Auditor found that "it is not conclusive that the consolidation of the Building Authorities would definitely result in either total cost savings or greater administrative efficiency."

The Inspector General's report does not contradict the Auditor's finding. As Finding 2 of this report points out, two of the four higher education building authorities have no staff at all, and three of the four contract out their major operational functions. Therefore, consolidating the building authorities would not necessarily yield significant administrative cost savings. Rather, the central premise of the Inspector General's recommendation is that the

Commonwealth's system of higher education would benefit from an organizational arrangement that promotes system-wide planning, priority setting, and resource allocation decision-making with respect to the financing and construction of campus buildings.

The responses to the draft report submitted by the Southeastern Massachusetts Building Authority and the Massachusetts State College Building Authority stated that the Inspector General's report was prepared without interviews or consultation with their representatives. These statements are not accurate. The Assistant Secretary-Treasurer of the Southeastern Massachusetts Building Authority was interviewed by a representative of the Office of the Inspector General on April 19, 1994. The Executive Director of the Massachusetts State College Building Authority was interviewed by a representative of the Office on April 12, 1994. Interviews were also conducted with the other two building authorities, the University of Massachusetts, and the Higher Education Coordinating Council.

The Inspector General's purpose in providing copies of the draft report to the four higher education building authorities, the University of Massachusetts, and the Higher Education Coordinating Council was to ensure that all recipients had ample opportunity to respond to and comment on the Office's findings. Their detailed responses are provided in the following pages.



Commonwealth of Massachusetts
University of Massachusetts Building Authority

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617-457-3100

February 2, 1995

HAND DELIVERED

Robert A. Cerasoli, Inspector General
Office of the Inspector General
One Ashburton Place, Room 1311
Boston, Massachusetts 02108

RECEIVED

FEB 2 1995

OFFICE OF
INSPECTOR GENERAL

Re: Draft Report on Higher Education
Building Authorities

Dear Mr. Cerasoli:

Having reviewed your draft report, I offer the following comments and suggestions for clarifying the report and for correcting certain errors and misunderstandings contained in the draft document. To the extent these comments do not result in modifications to the report, I would request your inclusion of this letter as an appendix to any final report you publish or your stating that this letter has been filed with your office and is available for review by any interested person.

Introduction - Page 1, 2nd Paragraph:

The historic purposes of creating the higher education building authorities included a desire to lessen the impact of major construction in higher education upon the capital outlay process. As the Authorities undertook their work, it became clear that construction and funding by means of the Authorities had efficiencies which might be described as the benefits of partial privatization. While still subject to the competitive bidding laws with respect to construction, and required to choose designers through the same selection process as the Commonwealth, the Authorities have been able to design and construct in a significantly shorter period of time than the usual Commonwealth procedures allow and, consequently, have saved millions of dollars and gained valuable time as a result.

Commonwealth of Massachusetts
University of Massachusetts Building Authority

Robert A. Cerasoli, Inspector General

Page - 2 -

February 2, 1995

It should be noted that any "power to issue debt" which the Authorities have is subject to approval by the Secretary of Administration and Finance. In addition, the debt issued by the Authorities is financed by student fees with respect to the facilities financed, and not merely fees from dormitories and dining halls.

Introduction - Page 1, 3rd Paragraph:

A major reason why the Authority fees represent a "substantial share" of the total amounts paid by the students has been the decision to keep tuitions low at public institutions. Your comparisons are misleading, therefore, since different considerations determine the rate of growth of different student payments. If tuition were charged on a basis comparable to private institutions, the percentage of room and board fees to the total costs of attending these institutions would be dramatically reduced.

Introduction - Page 3, 1st Paragraph:

The increase in Authority fees has been largely a result of the increase in maintenance costs and costs of compliance with changes in safety codes, rather than the costs of construction or operations of the Authority. At the University of Massachusetts, maintenance costs have risen because of decisions made by the Commonwealth with respect to salaries and benefits paid to Commonwealth employees which the University uses to fulfill the requirements of the Management and Services Agreements. The Authority legally has no role in the determination of such salaries and benefits.

Introduction - Pages 6 and 7:

The last sentence on page six is misleading given, as you point out in the next sentence, on page seven, that the Administration filed House No. 5414. The proposals made by the University of Massachusetts and the University Authority were the basis for that legislation. In addition, the increase in the University Authority's bonding capacity contemplated by the legislation only takes into account available capacity from the University of Lowell Building Authority and Southeastern Massachusetts University Building Authority.

Commonwealth of Massachusetts
University of Massachusetts Building Authority

Robert A. Cerasoli, Inspector General

Page - 3 -

February 2, 1995

Finding 1 - Pages 8 and 9:

This finding should be clarified to reflect that:

1. None of the Authorities has issued bonds to finance projects since 1988, except that in 1994 the Massachusetts State College Building Authority issued its \$89,315,000 Project and Revenue Refunding Bonds, which included approximately \$5,000,000 for new projects.

2. The approximate cost of the William D. Mullins Memorial Center Project was \$50,000,000, half of which was financed by the 1988 bond issue and the balance of which was financed by an appropriation of \$25,000,000 from the Commonwealth.

3. In 1991, the University Authority issued refunding revenue bonds in the aggregate principal amount of \$48,885,000, and refunded a portion of the Authority's Series 1984-A bonds.

4. The University Authority has financed major projects including the Campus Center and Student Union, Curry Hicks Cage, Alumni Football Stadium, North Village Family Housing, the parking garage, and the Mullins Memorial Center.

5. The Southeastern Massachusetts University Building Authority is presently planning to issue bonds to advance refund its outstanding bonds.

6. The Massachusetts State College Building Authority bond cap is presently \$105,000,000. The Massachusetts State College Building Authority has issued bonds three times, including the 1994 issuance to advance refund all its outstanding bonds and to obtain approximately \$5,000,000 for new projects.

A more accurate statement of the information you attempt to convey in the second sentence of the first paragraph on page 9 would be:

The remaining work of the Authority is conducted by consultants under contract with the Authority, who serve on an as-needed basis. The General Counsel and

Commonwealth of Massachusetts
University of Massachusetts Building Authority

Robert A. Cerasoli, Inspector General

Page - 4 -

February 2, 1995

Assistant Secretary-Treasurer of the Authority has the responsibility of advising the Authority with respect to the work performed under those contracts.

Finding 2:

The entire discussion contained in this finding is misleading, and should be refocused to remove any indication or implication that the memberships of the Authorities "do not conform to legal requirements," or that their members are acting outside of statutory authority. General Laws c. 30, §8 clearly provides that "[a] public officer appointed for any term by the governor ... shall hold his office during the term for which he is appointed and until his successor in office has qualified" In addition, St. 1960, c. 773, §2, as amended, provides that "[e]ach member [of the University Authority] shall continue in office until his successor shall have been appointed and qualified" Statutes 1961, c. 557, §2, as amended, St. 1964, c. 703, §2, as amended, and St. 1963, c. 703, §2, as amended, similarly provide for the continued legal authority of holdover members of the University of Lowell, Southeastern Massachusetts and Massachusetts State College Building Authorities members.

Rather than a finding that the Authorities "have not been properly constituted for many years," a finding consistent with the provisions of the underlying statutory authority would state that the terms of some members of the Authorities have expired; those members are serving until their successors are appointed; one Authority lacks the full number of members permitted by its enabling act; and the membership of the University of Lowell Building Authority and the Southeastern Massachusetts University Building Authority do not reflect the consolidation of the University of Massachusetts effected by the Educational Reform Act of 1991. Consequently, a more accurate statement of the information you attempt to convey in the last two sentences of the first paragraph on page 13 would be:

The Education Reform Act of 1991 eliminated the Boards of Trustees of the University of Lowell and Southeastern Massachusetts University; it also reconstituted the University of Massachusetts Board of Trustees to accommodate the expanded University system. Since then, the memberships of the University of Lowell Building Authority and the Southeastern Massachusetts University Building Authority have not complied with the requirements set forth in their enabling acts, in that they have no members from the

Commonwealth of Massachusetts
University of Massachusetts Building Authority

Robert A. Cerasoli, Inspector General

Page - 5 -

February 2, 1995

reconstituted Board of Trustees. One of the Trustee members of the University Authority is a "holdover" as permitted under the Authority's enabling act because his term as a trustee has expired and the Governor has not appointed his replacement.

In addition, contrary to the information contained in Table 4, the "trustee" members of the Massachusetts State College Building Authority are required to be members of the Higher Education Coordinating Council, not the University Trustees. The three members who are also members of the Higher Education Coordinating Council are Tamara P. Davis, Catherine Wilder Labine, and Peter Nessen (the expiration date of whose term is clearly incorrect).

Finding 3 - Page 13:

Although this finding focuses on authorities other than the University Authority, the finding should be updated to reflect the University Authority's anticipated new \$22,600,000 bond issue for 1995.

Conclusion and Recommendation - Page 17:

1. The Administration has adopted Option 1, as evidenced by the filing of House No. 5414, which called for the consolidation of the three university building authorities. The University of Massachusetts Building Authority strongly supports the Administration in this legislative proposal.

2. Option 2 is not a practical recommendation since the forms of governance of the University of Massachusetts and the Massachusetts State Colleges are too different to support a consolidated building authority.

3. Option 3 is an impractical and drastic measure premised on a number of erroneous grounds. The Authorities have indeed issued new bonds since 1988, including the 1994 Massachusetts State College Building Authority issue and the projected 1995 University Authority issue. Three of the four Authorities contract, not with some "other public entities," but, in the case of the University of Massachusetts Building Authority and Southeastern Massachusetts University Building Authority, with the related university, and in the case of the State College Building Authority with the Higher Education Coordinating Council, "to clean, maintain, and collect fees" Although

Commonwealth of Massachusetts
University of Massachusetts Building Authority

Robert A. Cerasoli, Inspector General

Page - 6 -

February 2, 1995

appointments have not been made with respect to a number of members whose terms have expired, service by these members after the expiration of their terms does not violate the provisions of the enabling acts.

I appreciate the opportunity to comment on your draft report, and invite any questions you might have about my response. I am, of course, available to meet personally with you or your staff to discuss these matters.

Very truly yours,



MORRIS M. GOLDINGS
General Counsel and
Assistant Secretary-Treasurer

MMG:heb

UNIVERSITY OF LOWELL

Building Authority

DAVID J. CUNNINGHAM
Chairman

WILLIAM BLAIR
Vice-Chairman

MARY ELLEN FITZPATRICK
BERTRAM R. PALEY
MICHAEL E. PHELPS
MARY JANE POWELL
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90 PAWTUCKET STREET
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JOSEPH P. DONAHUE, JR., Esquire
Secretary-Treasurer

MARGARET I. JURGEN
Assistant Secretary-Treasurer

DONNA M. TABLOSKI
Executive Director

January 30, 1995

RECEIVED

JAN 31 1995

Mr. Robert Cerasoli
Inspector General
One Ashburton Place
Boston, Ma. 02108

OFFICE OF
INSPECTION

Re: Draft Report Concerning Building Authorities

Dear Mr. Cerasoli:

Thank you for the opportunity to review your draft report forwarded on January 17, 1995 and respond briefly. There are several points I would like to make. Most importantly, we are just now in the process of receiving permission to proceed with the refinancing of a substantial portion of our debt which we originally sought in 1992. In fact, we expect the University Trustees' approval on Wednesday, February 1st. We sincerely hope that your report will not create confusion or concern in the marketplace such that our bond issue would be adversely affected forcing us to pay higher interest rates than we otherwise would. For instance, as we discuss below, we are concerned that the public not have any question as to the authority of the Board to take legal, valid and binding actions as and when necessary in order to conduct its business.

With respect to "Finding 3" in your draft, we certainly regret the delay which has occurred in receiving clearance to pursue a refinancing. Your report accurately notes the efforts we made and the unfortunate fact that we were not allowed to go forward. While the refunding we are currently pursuing will realize a substantial portion of the savings we might have been able to obtain in 1992, the delay itself has resulted in a substantial loss to the Authority and to our residence halls students.

Mr. Robert Cerasoli
January 30, 1995
Page Two

As you know, however, the Authority is not to blame for any delay on this account. The Authority has complied with the express instructions of the University administration and the state administration. We are not able under law to proceed with a bond issue on our own initiative. For various reasons relating to the capital planning and financing process being developed for the University as a whole, we were unable to obtain the necessary permission in 1992, 1993 or 1994 to refinance on our own. When your report is released, we hope that the message the public will get is that this overdue refinancing should proceed and that there are significant benefits to be derived. We are concerned that the press not misinterpret your report in such a way as to question the value of the refunding or the power of the Authority to implement the transaction.

With regard to your second finding, we acknowledge the facts you have assembled concerning the "hold over" status of a number of our Board members. (Please note, however, that our Chairman, Mr. David Cunningham, is not a student trustee.) It should be noted, however, that the Authority acting by itself is unable to remedy this situation. As you know, appointments to the Board are made by the Governor.

Under the express wording of our statute (M.G.L. c. 75A, 2), members whose terms have expired continue to serve until their successors are appointed. Despite the absence of any compensation for their services and the apparent lack of support and interest from the Governor's office, our dedicated Board members have continued to serve. It would be a shame if the public construes your report as criticizing them in some way for their willingness to serve under these trying circumstances. As a legal matter, we understand from our counsel that the Board has full power and authority to act (so long as it does so with the statutory quorum of five Board members). It seems to us that unless and until the legislature takes action to relieve the Authority of its duties it is necessary and appropriate that we continue to function in a responsible manner.

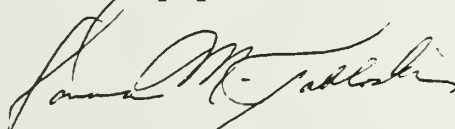
The first finding in your report is stated in terms of "relative inactivity." Although our final round of financing for the newest dorms at Lowell was issued in 1989 (rather than 1987, as stated in the draft), you are correct in saying that our Authority has not received requests from the University to undertake new projects since then. This week we hope to receive permission to borrow for an urgently needed sprinkler system for Fox Hall, but that is part of the routine maintenance and relatively minor capital improvement activity we have been responsible

Mr. Robert Cerasoli
January 30, 1995
Page Three

for in the 1990's. We are, of course, the one Building Authority you cite which has operational responsibilities. These activities are monitored by the Board generally through monthly meetings and require coordination with several departments of the University at Lowell. We are not inactive, although we have been somewhat less active in recent years than we were in the 70's and 80's.

Finally, your draft report concludes by recommending consideration of various options under which the current statutory scheme relying on four building authorities would be revised and some form of consolidation would be affected. On behalf of the University of Lowell Building Authority I merely wish to point out that the advantages and disadvantages of further centralization in this aspect of higher education are certainly open to debate. For example, in 1993 the State Auditor reviewed the same question and concluded that further consolidation at the building authority level was not necessarily advantageous. We do not believe that there has been any demonstration of the proposition that further consolidation will provide an improvement in service or a lowering of costs. It may well be that decision-making and policy-setting by conscientious, knowledgeable and committed local "volunteers," such as the Authority members, can provide benefits from both a quality and a budgetary point of view. Particularly, from the view point of faculty, students and staff at the Dartmouth and Lowell campuses, we believe there is a serious question as to whether further consolidation will produce benefits.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Donna M. Tabloski", written in a cursive style.

Donna M. Tabloski
Executive Director

DMT:mr

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*VIRGINIA
*FLORIDA

SCOTT W. LANG*
WILLIAM M. STRAUS*
MARGARET D. XIFARAS*
PETER C. BULLARD*

RICHARD M. BENNETT*
SUSAN FORGUE WEINER*

OF COUNSEL
GEORGE C. PERKINS*
JOSEPH B. MCINTYRE*

January 25, 1995

RECEIVED

JAN 30 1995

6-11-95

Mr. Robert A. Cerasoli, Inspector General
One Ashburton Place
Boston, Massachusetts 02108

Dear Mr. Cerasoli:

Re: Southeastern Massachusetts University Building Authority

I am writing to you on behalf of the Southeastern Massachusetts University Building Authority, regarding your "Confidential Draft" of a limited review of the state's higher education building authorities dated January 17, 1995.

In reviewing the document itself, it is clear that no one from the SMUBA was actually interviewed by the Inspector General's Office to gather the information that your office compiled regarding the events since Southeastern Massachusetts University was consolidated into the University of Massachusetts in 1991. It is my understanding from a reading of the report, that all information regarding SMUBA in this report was taken from minutes of the SMUBA's meetings of October 1992 and May 1993. The SMUBA certainly would have appreciated the opportunity to provide direct information on these events through a formal interview by your staff prior to the issuance of your "Confidential Draft." Nevertheless, there are several points in the "Confidential Draft" which should be clarified and commented upon by the SMUBA in order to ensure your report's accuracy.

Finding 1: The higher education building authorities have been relatively inactive in recent years.

Please be advised that your conclusion in Finding 1 is totally inaccurate. From 1991 through 1994, the SMUBA conducted 20 meetings dealing with everything from the possibility of

refinancing the 1986 Building Authority bonds to setting room and board rates as well as perfecting maintenance schedules, responding to routine and emergency repairs, processing bids, and dealing with the day-to-day appropriate subject matter of the Building Authority. These 20 meetings do not include numerous subcommittee meetings involving SMUBA board members dealing with specific issues concerning the above topics. The SMUBA contends that your characterization that the SMUBA has not played a significant role in the financing, construction, or operation of buildings on the (sic) UMass. Dartmouth campus in recent years, is not accurate. While no major construction or financing has taken place since the successful 1986 project involving the construction of 804-bed Cedar Dell residence apartments, the Building Authority has been far from dormant in its activities.

Finding 2: The higher education building authorities have not been properly constituted for many years.

While it is true that recently neither Governor Dukakis nor Governor Weld has reappointed members to the Building Authority, the Building Authority on a regular basis has requested that the respective Governor's Office update the appointment of Building Authority members. The student contingent of the Building Authority has been elected according to the Enabling Act since the Building Authority has been in existence. The current non-student Building Authority members serve until replaced, and at no time has the Building Authority ever operated without a quorum.

Finding 3: Indecision regarding the future of the higher education building authorities prevented Southeastern Massachusetts University and the University of Lowell from refinancing their debt at historically low interest rates.

In the fall of 1992, the SMUBA determined, through the help of a financial advisor, that a refinancing of its 1986 series bonds was desirable in that it would bring substantial savings in the debt service obligations of the Building Authority. Obviously, these savings would then be passed on to the students in the form of reduced room and board rates. When the Building Authority approached the University Trustees for permission to refinance its current bonds, it was suggested that a University-wide bond offering would be cost-effective and more desirable than the individual building authorities, including the SMUBA, offering bonds at that time. The SMUBA deferred to the University Trustees and their proposed University-wide refinancing effort. Unfortunately, this proposed University-wide offering did not come about. When it was clear in the summer of 1994 that the University Trustees would not be forthcoming with their refinancing package, the SMUBA requested permission from the Trustees to undertake its own refinancing project. The University Trustees voted on December 7, 1994 to allow the SMUBA

to offer a new issuance of bonds in order to take advantage of interest rates which are more favorable than the 1986 series bonds interest rates. The SMUBA is currently in the final process of issuing these bonds which will produce a substantial savings in debt service to the SMUBA, which in turn will be passed on to the students. While it is difficult to ascertain the exact savings of the 1995 offering versus a fall 1992 offering scenario, it is clear that the 1995 offering will produce savings in excess of \$2 million dollars. This roughly will translate into a savings for students of \$90.00 per bed for the next 20 years. In addition, it will provide the SMUBA with approximately \$1 million dollars in the first year of the refinancing for sorely-needed construction and renovation costs in the residence halls which were built approximately 20 years ago. These savings are comparable to the savings which would have been obtained when the Building Authority first requested the Trustees' permission to refinance its 1986 bonds.

Conclusion and Recommendations

In your conclusion, you indicate that "The current organization of the state's higher education building authorities can impede state-wide planning and cost-effective management of the buildings comprising the Commonwealth's public colleges and university system." The SMUBA does not agree with your conclusion and in fact, points to a State Auditor's Report on Certain Activities of the Commonwealth's University/College Building Authorities No. 91-5010-3, issued February 11, 1993, which specifically states in its summary, the following:

"...it is not conclusive that the consolidation of the Building Authorities would definitely result in either total cost savings or greater administrative efficiency. As discussed above, some savings in the area of physical property insurance, workers' compensation insurance, and employees' health insurance may be realized without the need for consolidation. Other than the potential savings in debt service costs indicated by the University of Massachusetts, we do not foresee any significant cost reductions that could be achieved by consolidating the four Building Authorities into one entity.¹

While you indicate in your letter to the Building Authority that your office "has been conducting a limited review of the state's higher education building authorities in recent months," the State Auditor's Office conducted a full audit in arriving at its

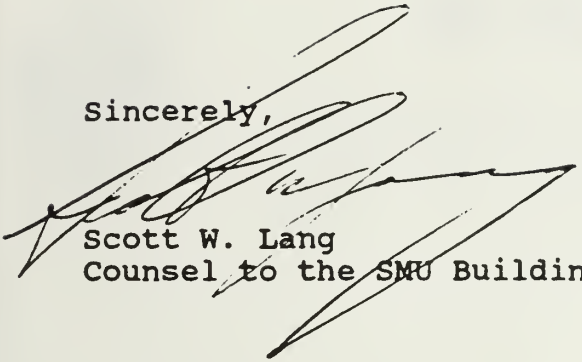
¹State Auditor's Report on Certain Activities of the Commonwealth's University/College Building Authorities, No. 91-05010-3, p. 8.

conclusion in 1993. This conclusion by the State Auditor was made after the University consolidation and it is the SMUBA's position that nothing materially has changed since the State Auditor issued his report.

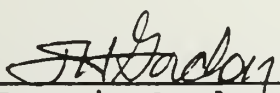
In regard to the "Options to Consider" posed by your report, the Building Authority has the following comments.

1. **Consolidation of the three building authorities.** The SMUBA does not believe that the University of Massachusetts Dartmouth Campus would be well-served with one building authority overseeing its 19 buildings consisting of a dining hall and 2,140 beds. The students expect prompt and thorough response to the every-day problems that are associated with building maintenance. The Building Authority in its current role, through Auxiliary Services, is able to respond rapidly to the demands of the student-body. In addition, long-term planning and implementation is best provided by a decentralized locally-focused building authority. The members on the building authority have the interest of the Dartmouth campus and its students in mind at all times, rather than having the responsibilities and interests of a multitude of campuses. At the present time, government on both the national and state level appears to be decentralizing. It is not in the best interest of the students on the Dartmouth campus to be melded into a "single building authority."
2. **Replace all four higher education building authorities with a single building authority.** See SMUBA's answer to number 1 above. In addition, please be advised that the current proposal to create a single "super" building authority, does not include student representation, nor does it include appropriate local representation for the individual campuses. The individuals who best know the problems at the Dartmouth campus are students, administrators, staff and the building authority members who serve that campus. It is difficult to envision a "super building authority" being as responsive or as efficient as the current SMUBA.
3. **Eliminate all four higher education building authorities.** It is the SMUBA's position that without the current building authorities, there would not have been residence halls or dining facilities at any of the campuses. They certainly have served the interests of the students and the citizens of the Commonwealth well in their history. Further, these building authorities have functioned at no cost to the Commonwealth. A suggestion that the legislature eliminate all of the building authorities and replace them with an office administrator raises more questions and potential problems than leaving the current system intact.

Sincerely,



Scott W. Lang
Counsel to the SMU Building Authority



Francis Gordon, Asst. Secretary-Treasurer
SMU Building Authority



The Commonwealth of Massachusetts

MASSACHUSETTS STATE COLLEGE BUILDING AUTHORITY

136 LINCOLN STREET • BOSTON, MASSACHUSETTS 02111 • TELEPHONE (617) 542-1081

January 26, 1995

RECEIVED

Mr. Robert A. Cerasoli, Inspector General
Office of Inspector General
One Ashburton Place
Boston, Massachusetts 02108

JAN 26 1995

OFFICE OF
INSPECTOR GENERAL

Dear Inspector General Cerasoli:

Thank you for the opportunity to comment on the draft report of your review of the state's higher education building authorities. I am troubled by the fact that your report was drafted and conclusions were made without consultation with any member or staff of the State College Building Authority. I would like to comment on some factual issues relative to the **FINDINGS** stated in your report and also advise you of the ongoing role and involvement of this Authority with regard to the financing, construction, care and management of its building projects at the nine state colleges.

FINDING 1:

This Authority's legislative bond cap is \$105 million, all of which had been issued prior to 1989. There are \$89,315,000 bonds outstanding. Even though the amount of our outstanding bonds is \$89,315,000, this Authority's legislation does not allow for the re-issuance of bonds that have been paid off. Therefore, there is no "evergreening" provision in our legislation, unlike that of other building authorities.

FINDING 2:

The information on Table 4, Massachusetts State College Building Authority Membership as of 12/12/94, is incorrect in that the term of expiration for Mr. Peter Nessen is August 1, 1998, not 1988. Therefore, there are four members, not five, whose terms have expired. The terms of two of these members expired in 1994, one in June, the other in August. This Authority's legislation provides that all members whose term of appointment has expired continue to serve as members until their successor has been appointed and confirmed, hence the Authority is properly constituted.

While this Authority's legislation does not provide for state college trustee representation among its members, it does provide for representation from the members of the Higher

Education Coordinating Council (HECC). Presently the members representing HECC are Mrs. Tamara P. Davis, Chair of the Authority, Mrs. Catherine Wilder Labine, Vice Chair of the Authority and Mr. Peter Nessen.

FINDING 3:

In October 1994, this Authority successfully completed the refinancing of all of its bonds with the issuance of \$89,315,000 1994A Refunding Revenue Bonds at a net present value savings of \$3,721,484. As a result, these savings have reduced the Authority's debt service cost by \$544,000 per year. The new bonds were issued for the same term as the old bonds and the term of the debt was not extended to enhance the savings. This refinancing was accomplished with the cooperation and approval of the Commissioner of Administration and Finance, the Treasurer, the Secretary of Education and HECC.

Through the use of a creative financing structure, the Authority also raised \$5 million of new money from the refunding proceeds to acquire and renovate a residence facility for use by the Massachusetts College of Art. The Authority will direct, administer, supervise and manage the acquisition and renovation of this facility. The Authority continues to explore other creative structures to finance new projects.

Even though this Authority has an agreement with HECC and the state colleges providing for the day-to-day management and care of its projects by the state colleges, there are other important functions this Authority performs with respect to the development and support of state college residence facilities. In addition to issuing bonds for building projects, this Authority provides the following functions and services:

- ° it administers, directs, contracts, schedules and coordinates with others the development process for new projects: i.e., financing, design, environmental review and permitting, construction and construction management, furnishings procurement and occupancy;
- ° it administers, directs and supervises the ongoing capital repair and improvement of its facilities and their furnishings;
- ° it undertakes each year a \$1 million capital improvements program to maintain the soundness, attractiveness and usefulness of its facilities over the years;
- ° it performs centralized purchasing of furnishings, equipment, insurance and maintenance services for the

January 26, 1995

Page 3

regular inspection and testing of building life safety systems, i.e., fire alarm detection equipment, sprinkler systems, emergency power generators and elevators;

- ° it establishes the rents and charges for its projects with the approval of HECC, collects revenues from the state colleges, oversees the investment and expenditure of these revenues and provides for audited financial financial statements annually; and
- ° it monitors and assures compliance with the covenant requirements of the trust agreement with bondholders and provides certificates and other documents in this regard.

All of these functions are performed subject to the state's rules, regulations and legislative requirements applicable to the awarding of contracts for building construction, the procurement of goods and services, selection of architects, engineers, construction managers, and this Authority's own procedures for competitively selecting accounting, financial and legal advisors.

This Authority has a proven record of completing the design and construction of its projects quickly and on schedule, thereby enabling these projects to produce revenues as soon as possible and to minimize the costly expense of capitalizing interest costs. The Authority provides these services efficiently and economically with low cost overhead and a staff of four experienced persons. All of the Authority's activities and procedures are accountable to the Executive Office, the State Auditor and HECC, all of whom have supported our management and operational practices.

If the Authority did not exist, its functions would have to be performed in some other way. If its responsibilities were decentralized to each state college, there would be nine sets of administrators and support staff performing the functions presently performed by the staff of the Authority. Centralized coordination of the separate administrators would still be necessary. If its responsibilities were assumed by others, additional employees at least equal to those presently employed by the Authority would be needed...at what cost?...what savings?

This Authority has a specific mission: to operate, manage and maintain its projects so that the facilities remain attractive to students, remain useful and occupied, and continue to produce enough revenues to meet all costs associated with the projects, especially with regard to the payment of the debt service guaranteed by the Commonwealth.

Unlike the building authorities serving the reorganized university system, this Authority serves the state colleges and plays a significant

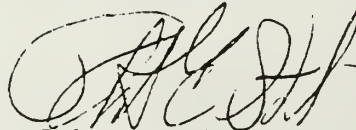
Robert A. Cerasoli, Inspector General
Office of Inspector General
January 26, 1995
Page 4

and necessary role, not only in the development of new projects, but also in the ongoing maintenance and upkeep of existing projects, all in a very cost effective manner.

Prior to promoting any re-alignment or elimination of the state's higher education building authorities, I invite you to become fully aware of the accomplishments and services provided by the Massachusetts State College Building Authority.

I would be pleased to discuss with you this Authority's role in the development and management of its projects and the cost containment of their operations as they relate to the support of students and our state colleges in the fulfillment of their educational missions.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. E. Stewart", is written over a horizontal line.

Robert E. Stewart
Executive Director

RES/da

cc: Tamara P. Davis, Chair
and Members of the MSCBA
Stanley Koplick, Chancellor, HECC
Piedad F. Robertson, Secretary of Education



UNIVERSITY OF MASSACHUSETTS

AMHERST • BOSTON • DARTMOUTH • LOWELL • WORCESTER

THE PRESIDENT'S OFFICE
18 TREMONT STREET, SUITE 800
BOSTON, MASSACHUSETTS 02108
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FAX (617) 287-7044

January 24, 1995

Mr. Robert A. Cerasoli, Inspector General
Commonwealth of Massachusetts
John W. McCormack State Office Building
One Ashburton Place, Room 1311
Boston, MA 02108

RECEIVED

JAN 28 1995

OFFICE OF
INSPECTOR GENERAL

Dear Inspector General Cerasoli:

Thank you for sending me your draft report on the university and state college building authorities. We appreciate the opportunity to comment on this confidential draft report and would like to set the record straight as much as is possible.

We believe that you have accurately captured the essence of what is going on in the three university building authorities in terms of student charges and in terms of the compelling case for consolidation. We are fully supportive of consolidation of the three building authorities and have worked with the Weld Administration to file House No. 50014 which would have achieved this objective. The 1994 legislation reflects the University's work with the three UMASS Building Authorities to achieve a proper and appropriate approach to consolidation.

The only issue that we would express concern about is that there was not continued indecision about the need to refinance existing building authority debt. In the fall of 1993, the University, working collaboratively with HEFA and the three UMASS Building Authorities, prepared a comprehensive refinancing bill and a collateral effort to borrow \$100 million to repair and maintain existing university buildings. The value of this bill was that it would consolidate revenue and expenditures for debt servicing in such a way that the university could maximize its position in the financial markets through pledging appropriate revenues to meet bond debt payments. In fact, the University of Massachusetts received an A credit rating equal to that of the Commonwealth's, something that only five other public universities had achieved, as a result of the ratings presentations made by University officials.

The Governor, the University of Massachusetts Board of Trustees, the three UMASS Building Authorities, and the Senate Ways and Means all concurred in providing whatever legislative requirements there were to do this major bond offering. Unfortunately, the original HEFA legislation which allowed HEFA to borrow money for

public entities was not passed by a two-thirds vote of both chambers of the Legislature and therefore according to bond counsel UMASS would have to transfer all properties involved in the program to HEFA. For the duration of the projects this would have substantially increased our legal and administrative costs. The corrective legislation was approved by the Senate in October of 1993; however, the House did not concur in such an effort because of clearly expressed concerns on the part of the House that the overall debt program of the Commonwealth was not properly organized. We were disappointed that we could not move forward with this comprehensive debt restructuring and capital development program, but are continuing to hope for such a conclusion in the near future. Indecision was not a problem for the University but it did impact on our refinancing efforts.

Although we continue to press for the legislation that would make our full program possible, you should be aware that in the meantime the UMASS Building Authority is providing new bonds of approximately \$25 million for essential repair and maintenance in the University and that the Lowell and SMU building authorities are going ahead with refinancing proposals to stabilize student fees as you have suggested. These interim and separate steps are necessary because we have not been able to either consolidate the building authorities or issue the comprehensive debt financing program.

Lastly, we favor your option one, in effect, consolidating the three building authorities so that the University System Trustees would have an appropriate debt financing vehicle and operational vehicle, although the UMASS Building Authority would depend on the University for all operational activity. We favor this option because we do need a debt financing vehicle and the HEFA vehicle has heretofore been unavailable to the University as originally contemplated and because the University board must continue to have the authority to determine what borrowing is appropriate and to be accountable for operations of its campuses.

We hope that your report will stimulate support for the Governor's higher ed capital financing bill which we understand he will resubmit in the near future. We would be happy to work with you on a legislative strategy to achieve the first recommendation in your report.

Sincerely,



Michael K. Hooker
President

cc: Chairman Taylor
Governor Weld
Vice President Lenhardt

MKH/jal



THE COMMONWEALTH OF MASSACHUSETTS

Higher Education Coordinating Council

Room 1401, McCormack Building
One Ashburton Place
Boston, Massachusetts 02108-1696

(617) 727-7785
FAX (617) 727-6397

January 25, 1995

Robert A. Cerasoli, Inspector General
Office of the Inspector General
Room 1311, McCormack Building
One Ashburton Place
Boston, MA 02108-1696

Dear Mr. Cerasoli:

Thank you for your letter of January 17. I appreciate the opportunity to comment on the confidential draft report on the higher education building authorities. I do suggest that you revisit the discussion of the recent "relative inactivity" of the State College Building Authority. I have had the opportunity to work with the State College Building Authority during the past year. I have been impressed with their work as well as the professional ability and commitment of the Director and his small staff. This work has included an in-depth review of various options for refinancing the Authority's existing debt resulting in a decision to refinance which yielded substantial savings. Furthermore, the refinancing permitted the acquisition of additional dormitory facilities at the Mass. College of Art. Reports by the Authority to the Council on such matters as Occupancy, Expenditures, Annual Budgets and Room Rates have been timely, concise and professional in their format and content.

While the consolidation of the University Building Authorities may have merit, I would strongly support continuation of a separate State College Building Authority.

Sincerely,

A handwritten signature in dark ink, appearing to read "Stanley Z. Koplik".

Stanley Z. Koplik
Chancellor

